

CITY OF DAKOTA CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

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City of Dakota City

City of Dakota City

Officials

(Before January 2020)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------|----------------|---------------------|
| Sean Phillips | Mayor | Jan 2020 |
| Barb Nelson | Council Member | Jan 2020 |
| Tim Vought | Council Member | Jan 2020 |
| Justin Kirchhoff | Council Member | Jan 2022 |
| Ted Prenger | Council Member | Jan 2020 |
| Tim Myers | Council Member | Jan 2022 |
| Angelique Berry | City Clerk | Indefinite |
| Arends, Lee & Emick | Attorney | Indefinite |

(After January 2020)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------|----------------|---------------------|
| Sean Phillips | Mayor | Jan 2022 |
| Jon Stern | Council Member | Jan 2024 |
| Tim Vought | Council Member | Jan 2024 |
| Justin Kirchhoff | Council Member | Jan 2024 |
| Ted Prenger | Council Member | Jan 2022 |
| Tim Myers | Council Member | Jan 2022 |
| Angelique Berry | City Clerk | Indefinite |
| Arends, Lee & Emick | Attorney | Indefinite |

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Dakota City for the period July 1, 2019 through June 30, 2020 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Dakota City's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dakota City during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC".

Faller, Kincheloe & Co, PLC

December 9, 2020

Detailed Findings and Recommendations

CITY OF DAKOTA CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Dakota City (City):
- (1) Cash – handling, reconciling and recording.
 - (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparation and distribution.
 - (6) Debt – recordkeeping, compliance and debt payment processing.
 - (7) Utilities – billing, collecting, depositing and posting.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Financial Condition – At June 30, 2020, the City had a deficit balance of \$116,098 in the Capital Projects Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

- (C) Revenue Bonds – The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sewer sinking account. We noted that the cash balance in the sewer sinking account was (\$4,928) at June 30, 2020.

The water revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the water sinking account. While the City did establish a sinking account for the water revenue bonds, the City did not pay the water revenue bond principal and interest payments from the water sinking account.

Recommendation – The City should implement procedures to ensure the sewer revenue bond sinking account and the water revenue bond sinking account requirements are met.

CITY OF DAKOTA CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (D) Disbursement Recording – We noted that the City paid for a portion of the Enterprise, Water Fund debt from the Enterprise, Sewer Fund.

Recommendation – The City should implement procedures to ensure all disbursements are paid from the correct funds. In addition, the City should make a corrective transfer in relation to the above.

- (E) Insurance Property Tax Levy – The City levies a tax to pay for liability and property insurance coverage. The proceeds of this levy are used to pay the costs associated with liability and property insurance coverage. The City levied \$21,000, but only spent \$8,606 on liability and property insurance coverage for General Fund activities. As a result, it appears the insurance property tax levy is excessive.

Recommendation – The City should implement procedures to ensure the insurance property tax levy is not excessive in the future.

- (F) Utility Rates – The water and sewer utility rates charged to customers are different than the utility rates as noted in the City ordinances. Chapter 384.84 of the Code of Iowa requires that utility rates be approved by ordinance of the City Council.

Recommendation – The City Council should approve utility rates by ordinance, as required.

- (G) Annual Urban Renewal Report (AURR) – The AURR report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the ending cash balance, the receipt balance, and the beginning and ending debt balances as reported on the AURR do not agree to the City's records.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the community and economic development and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

In addition, the budget documents did not include one debt issue of the City.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, as required by the State of Iowa, all debt issues should be included on the budget documents.

CITY OF DAKOTA CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported ending balances which do not agree with the City’s records by \$541.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.